

Corporate Governance Committees and Financial Performance: An Empirical Study of Healthcare Companies in Nigeria

Gina Oghogho Olufemi¹; Agbo, Innocent Sunny²

¹Department of Accounting, Wellspring University, Benin City, Nigeria

²Department of Accounting, Igbinedion University, Okada Edo State, Nigeria

ABSTRACT

This study examined empirically corporate governance committees and financial performance of healthcare companies. The independent variables are remuneration committees and nomination committees and independent variable was proxied with return on equity. The study used *Ex Post Facto* research design. Regression analysis was employed to test the hypotheses. The result showed that remuneration committee has a negative effect on return on equity, and this effect was statistically significant at 5% level of significance. While nomination committee has a positive effect on return on equity, and this effect was statistically significant at 5% level of significance. It was suggested that the remuneration committee ensure that the appointed board members have an appropriate balance of skills to successfully discharge their duties.

KEYWORDS: *Corporate governance, Remuneration committees, Nomination committees and Return on equity*

How to cite this paper: Gina Oghogho Olufemi | Agbo, Innocent Sunny "Corporate Governance Committees and Financial Performance: An Empirical Study of Healthcare Companies in Nigeria" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-7 | Issue-2, April 2023, pp.296-302,

www.ijtsrd.com/papers/ijtsrd54006.pdf



IJTSRD54006

URL:

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INTRODUCTION

The corporate governance committee shall assist the board of directors in fulfilling its responsibility to shareholders, potential shareholders, and the investment committee by developing and recommending to the board of directors a set of corporate governance principles to be applied in the company, as well as reviewing ongoing developments and best practices in corporate governance affecting the company. According to Cadbur (1992), corporate governance is the framework within which businesses are directed and governed. Corporate governance prioritizes the role and responsibilities of the board of directors, as well as interactions with stakeholders, in order to improve performance. Corporate governance refers to the interactions between a company's management, board of directors, shareholders, and other stakeholders. Corporate governance aims to make it easier to monitor and regulate business operations. Its essence is based on operational fairness and transparency, as well as increased

disclosures, in order to protect the interests of numerous stakeholders (Akshita & Shernaz, 2018).

Corporate governance committee measures include the audit committee, remuneration committee, nomination committee, and risk committee. Financial performance is a monetary measure of a company's policies and operations. It is a broad measure of a company's overall financial health over a given time period that can be used to compare similar firms in the same industry or to aggregate industries or sectors. There are numerous ways to assess a company's financial performance (Kinyua, Gakure, Gekera & Orwa, 2015).

There are several ways to assess a company's financial performance, including return on investment (ROI) and return on asset (ROA), which measure how well a company can use its original business assets to generate profits (Al-Waeli et al., 2020).

According to Nwachukwu (2021), the Central African Republic, Lesotho, Chad, and Nigeria have the world's lowest life expectancies. According to recent United Nations data, Nigeria has a life expectancy of 55 years, and the recent increase in early deaths is an outcry of the collapse of the health care system, which can be attributed to a lack of investment in the sector. For instance, in Nigeria, there are little or no ambulance services in major parts of the country, or a simple toll-free number, like 999 to call in an emergency reducing further the chances of survival during an unfortunate health event. Investors are rational being who expects returns on investments made, so to encourage investments in the underfunded health sectors, some corporate governance issues must be addressed and also note the effects of these issues on the performance of the sector. Hence this study is to examine the effect of corporate governance committees on financial performance of healthcare companies with the underline specific objectives:

1. To ascertain if nomination committee influences return on asset of selected listed healthcare firms in Nigeria.
2. To examine if there is any significant relationship between remuneration committee and return on equity of selected listed healthcare firms in Nigeria.

Review of Related Literature

A corporate governance committee typically oversees who serves on the board of directors and plays a key role in the selection and compensation of executive-level positions in the organization. A corporate governance committee may also assist boards in adhering to state and federal regulatory requirements for that organization Adam wire (2022).

Corporate governance committees may be formed to oversee and evaluate board performance, conduct board committee assessments, recruit and nominate board members, complete annual audits, and meet compliance and regulatory requirements. Adam wire, a member of the corporate governance committee, keeps up to date on the best board governance trends (2022).

Nomination Committee (NC)

According to Eminent and Guedri (2010), the NC's mission is to define the profiles of directors required for the board as well as to recommend future directorial candidates (and in so doing reduce the influence of the CEO on the selection process). According to the Financial Reporting Council (2012; 2014), the NC should ensure that the appointed board members have an appropriate balance of skills, age, gender, educational qualifications, experience,

independence, and company knowledge to successfully discharge their duties. Members should also be given a formal induction and have their skills and knowledge of the company updated and refreshed on a regular basis. The size of the NC is usually three to five, but it can vary depending on the size of the company (Tarry 2009).

According to Byrne (1971), people from similar backgrounds may have similar life experiences and values, and as a result, they may find it easier to interact with people from different backgrounds. The Combined Code (2006) and the Financial Reporting Council (2014) require the NC to have a succession plan in place in the event that a board member resigns.

Remuneration Committee (RC)

The RC is transforming into one of the world's most prominent issues. By focusing on the RC of the company and reporting its performance, the RC is recognizing the importance of a company's growth and profitability. There have been many discoveries of the possible benefits that companies may receive (Chung & Wei, 2017; Mintah, 2015). The RC should ensure that the appointed board members have an appropriate balance of skills, age, gender, educational qualifications, experience, independence, and company knowledge to successfully discharge their duties. Members should also receive a formal induction and be regularly updated and refreshed on the company's skills and knowledge. Many studies show that in firms with better governance, there are less instances of opportunistic behaviour by managers. Better governance, in fact, aids in aligning the interests of managers and shareholders, thereby improving corporate financial performance.

According to the researcher, the success of this committee means the success of the company because it followed all procedures and methods to ensure the fullest composition (Kaczmarek, Kimino & Pye, 2012). However, previous research findings did not fully investigate all related knowledge and understanding of the remuneration committee. As a result, the current research seeks to investigate the relationship between RC and corporate profitability. Previous studies, according to the researcher, are extremely rare and scarce, particularly in developing countries (particularly Nigeria), and are aware of the shortcomings of this committee. Furthermore, for case illustration, the current study would use data from Nigeria. It is also important to note that the majority of the studies did not link the remuneration committee to profitability. At this point, it is also necessary to distinguish between profitability and financial performance. Several studies frequently link

the remuneration committee to firm financial performance. Profitability must be recognized as the most important component of financial performance that investors and lenders are interested in.

Financial Performance

The return on equity ratio can be used by shareholders to determine how much investment returns they can expect for each dollar invested. Kasmir (2016) defines ROE as the ratio of net profit after tax to capital. ROE growth indicates that the company's prospects are improving because it can increase its profit. ROE is higher because it can increase profit. ROE demonstrates the effectiveness of using one's own capital. ROE indicates the percentage of profit made by the company for each monetary unit of equity invested in the company. ROE does not specify how much cash will be returned to shareholders because that is determined by the company's decision on dividend payments and how much the stock price rises. It is, however, a good indicator of whether the company is capable of generating a return that is worth the risk of the investment (Berman, Knight and Case, 2013). Typically, ROE is calculated by dividing net profit by average shareholder equity.

According to Herciu, Ogorean, and Belascu (2011), company profits are only relevant to investors if they are related to other indicators. The authors used ROS, ROA, and ROE to identify a relationship between effect and effort, where effect is profit and effort is given by sales, total assets, or stockholder's equity.

Empirical Review

Based on annual financial reports from 2014 to 2019, Daryanto, Wijaya, and Renatauli (2020) examined the financial performance of PT. Ace Hardware Indonesia, Tbk ('the company'), particularly its liquidity, solvency, profitability, efficiency, and valuation performances before and after the launch of ruparupa.com. Descriptive statistics were used to analyze financial ratios, and a sample paired t-test was also used to test 11 financial ratios. According to the study, PT. Ace Hardware Indonesia, Tbk overall's financial performance was unaffected by the launch. Earnings per share is the only financial ratio that has been significantly influenced (EPS). The remaining ratios are only marginally affected by positive and negative changes. Odubuasi, Ofor, and Ugbah (2022) investigated the impact of risk committee effectiveness (RCE) on the financial success of publicly traded banks in three African countries. The research lasted from 2009 to 2018. The study concentrated on the risk committee diligence, committee composition, committee diversity, committee expertise, committee size, and return on

equity (ROE) of three African countries: Nigeria, South Africa, and Ghana. Because the Hausman test supports the fixed effect model (FEM), this study was patterned after it. According to the FEM, the effect of RCE diligence and RCE compositions on bank performance in Nigeria, South Africa, and Ghana is statistically significant at the 5% level. Onipe (2022) focused on the role of the board of directors' remuneration committee in creating an environment in which board members feel well compensated or motivated to work toward increasing profitability. After controlling for regression diagnostics, this study used ordinary least square regression to test the relationship between the remuneration committee and firm profitability (normality and homoscedasticity of residual, multicollinearity, model specification, panel tests). The data is analyzed using descriptive statistics, correlation, and regression analysis. The findings show that the remuneration committee has a significant positive relationship with profitability. As a result, it is concluded that the remuneration committee is a major determinant of profitability among Nigerian firms listed on the stock exchange. For the years 2012-2018, Muhammad, Muhammad, Zujaj, and Gohar (2021) empirically examined the impact of audit and remuneration committees on the performance of cement and textile firms listed on the Pakistan Stock Exchange (PSX). The procedure- The research focuses on the impact of audit and remuneration committee characteristics on firm performance. Secondary data is collected using a simple random sampling technique from the annual reports of the 63 cement and textile firms. The study's findings support the postulations of agency theory and stewardship theory in the context of Pakistan's cement and textile industries. The study provides valuable inputs, particularly for audit and remuneration committees' strategies for achieving the desired financial outcomes. Audit committee characteristics have a significant and positive impact on a firm's return on asset (ROA) and return on equity (ROE). Similarly, the characteristics of the remuneration committee have a positive and significant impact on return on asset (ROA). Egiyi (2022) investigated the relationship between corporate governance and firm performance in publicly traded Nigerian enterprises. Ex Post Facto research was used in the study to analyze data from 20 publicly traded manufacturing companies. System GMM was used to evaluate the data, which spans the years 2010 to 2020. Firm performance was measured using profit margins and return on assets. According to the study's findings, corporate governance metrics (such as board size, audit committee size, and audit

quality) have a significant impact on a company's profitability.

Prior studies in the field, however, have yielded inconclusive results, leaving several gaps in the literature. Furthermore, previous studies highlight the RMCs attributes that affect corporate performance as well as reporting quality, and provide an impetus to conduct additional research in related fields. This paper examines previous studies and provides a better understanding of RMC's role and future research from 2003 to 2021.

METHODOLOGY

Research Design

The research design used in this study is an ex-post facto research design, which indicates that the data was collected after the event took place, rather than before to gather pre-existing data from the records of the firms chosen for the investigation.

Source of Data

There are two sources of data which are primary source and secondary source. But in this study secondary source was used which was gotten from Nigerian Exchange Group, 2021.

Population and Determination of Sample size of the study

The population of this study purposively consists of healthcare companies in Nigeria Exchange Group

Data Analysis and Results

(NGX, 2021). The study used purposive sample to select six companies which their data were made available as well covered the periods under study. These includes; Ekocorp plc. Fidson Healthcare plc, Glaxco Smithkline consumer Nig Plc, May & Baker Nigeria plc, Morison Industries plc. Neimeth International Pharmaceuticals plc.

Method of Data Analysis

The descriptive statistics, and ordinary least square regression technique was adopted to analyze the relationship between the variables. Preliminary tests to know the normality and stationary of the data are conducted through Jarque- Bera, skewness, kurtosis tests, and the unit root test.

Model and Model Specification

The model specification for this study is given as follows:

$$FP = f(RMC, NC) \quad i$$

This can be expressed in more detail form as follows:

$$ROE = \alpha + \beta RMC + \beta NMC + e \quad ii$$

Where;

ROE= Financial performance (proxied by Return on equity)

RMC=Remuneration committee

NC=Nomination committee

e =error term

Table 1: Descriptive analysis

	ROE	RC	NC
Mean	-0.035241	4.600000	8.800000
Median	-0.011297	5.000000	9.000000
Maximum	0.105830	5.000000	10.00000
Minimum	-0.278695	4.000000	8.000000
Std. Dev.	0.141414	0.516398	0.788811
Skewness	-0.402971	-0.408248	0.343622
Kurtosis	1.724183	1.166667	1.846939
Jarque-Bera	0.948854	1.678241	0.750772
Probability	0.622242	0.432090	0.687024
Sum	-0.352405	46.00000	88.00000
Sum Sq. Dev.	0.179982	2.400000	5.600000
Observations	10	10	10

Source: E-Views 9.0 Output, 2023

Interpretation of Descriptive Statistics

The descriptive statistics in table 1 indicates that the average return on equity of the sampled companies is -0.035; the maximum of 0.106 with a minimum of -0.279 with a standard deviation of 0.141. The average ADC from the sampled observations is 5.700; standard deviation of 0.483; a maximum observation of 6.000 with a minimum value of 5.000. The mean value of RMC stood at 4.600, a standard deviation of 0.516; maximum observation of 5.000 with a minimum value of 4.000. The mean of NMC is at the average of 8.800; standard

deviation of 0.789; a maximum observation of 10.000 with a minimum value of 8.000. The mean of RSM is at the average of 4.000; standard deviation of 0.943; a maximum observation of 5.000 with a minimum value of 3.000.

Table.2: Correlation Matrix

	ROE	RMC	NMC
ROE	1		
RMC	-0.80825	1	
NMC	0.67968	-0.763762	1

Source: E-Views 9.0 Correlation Output, 2023

The Pearson Correlation Matrix in table 2 shows the presence of a positive relationship between NMC and ROE at a coefficient value of 0.0.680. On the other hand, the coefficient factors of -0.808 is a clue that RMC was negatively correlates with ROE.

Test of Hypotheses

Hypothesis One

Table 3 Panel Least Square Regression analysis testing the relationship between ROE and RMC

Dependent Variable: ROE				
Method: Least Squares				
Date: 02/28/23 Time: 18:05				
Sample: 2012 2021				
Included observations: 10				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.982906	0.263737	3.726846	0.0058
RMC	-0.221336	0.057012	-3.882298	0.0047
R-squared	0.653263	Mean dependent var		-0.035241
Adjusted R-squared	0.609921	S.D. dependent var		0.141414
S.E. of regression	0.088322	Akaike info criterion		-1.838797
Sum squared resid	0.062406	Schwarz criterion		-1.778280
Log likelihood	11.19398	Hannan-Quinn criter.		-1.905184
F-statistic	15.07224	Durbin-Watson stat		2.960832
Prob(F-statistic)	0.004660			

Source: E-Views 9.0 Regression Output, 2023

Interpretation of Regression Analysis

Table 3 shows that there is a significant negative relationship between remuneration committee (RMC) and return on equity (ROE) of healthcare companies in Nigeria. This can be observed from the beta coefficient (β_1) of -0.221336 with p value of 0.005 which is significant at 5%.

The F-statistic of 15.07224 with an associated Prob(F-statistic) of 0.004660 is statistically significant at 5%, which reveals that the model is well fitted, while the coefficient of determination R^2 of 0.610, explains the individual variation of the dependent variable (ROE) as a result of the changes in the independent variable, RMC. It can be said that RMC has combined predictive power of 61% in affecting ROE of healthcare companies in Nigeria, while the remaining 39% is accounted for by other factors which are not captured in the model.

Decision

Since the P-value of the test 0.004660 is less than 0.05 (5%), this study upholds that remuneration committee has significantly affect return on equity of healthcare companies in Nigeria; thus, H_{01} is Rejected and H_1 Accepted.

Hypothesis Two**Table 4: Panel Least Square Regression analysis testing the relationship between ROE and NMC**

Dependent Variable: ROE				
Method: Least Squares				
Date: 02/28/23 Time: 18:07				
Sample: 2012 2021				
Included observations: 10				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.107518	0.410608	-2.697262	0.0272
NMC	0.121850	0.046492	2.620862	0.0306
R-squared	0.461965	Mean dependent var		-0.035241
Adjusted R-squared	0.394711	S.D. dependent var		0.141414
S.E. of regression	0.110021	Akaike info criterion		-1.399440
Sum squared resid	0.096836	Schwarz criterion		-1.338923
Log likelihood	8.997200	Hannan-Quinn criter.		-1.465827
F-statistic	6.868919	Durbin-Watson stat		1.839715
Prob(F-statistic)	0.030609			

Source: E-Views 9.0 Regression Output, 2023

Interpretation of Regression Analysis

Table 4 shows that there is a significant positive relationship between nomination committee (NMC) and return on equity (ROE) of healthcare companies in Nigeria. This can be observed from the beta coefficient (β_1) of 0.121850 with p value of 0.005 which is t significant at 5%.

The F-statistic of 6.868919 with an associated Prob(F-statistic) of 0.030609 is statistically significant at 5%, which reveals that the model is well fitted, while the coefficient of determination R^2 of 0.394, explains the individual variation of the dependent variable (ROE) as a result of the changes in the independent variable, NMC. It can be said that NMC has combined predictive power of 39% in affecting ROE of healthcare companies in Nigeria, while the remaining 61% is accounted for by other factors which are not captured in the model.

Decision

Since the P-value of the test 0.0306 is less than 0.05 (5%), this study upholds that nomination committee has significant effect return on equity of healthcare companies in Nigeria; thus, H_{01} is Rejected and H_1 Accepted.

Discussion and Conclusion

This study examined the effect of corporate governance on financial performance of healthcare companies. The independent variables are remuneration committees and nomination committees and independent variable was proxied with return on equity. The study used *Ex Post Facto* research design

for the study. Regression analysis was employed to test the hypotheses.

It shows that remuneration committee has a negative effect on return on equity, and this effect was statistically significant at 5% level of significance. While nomination committee has a positive effect on return on equity, and this effect was not statistically significant at 5% level of significance. These results were in agreement with Onipe (2022); Muhammad, Muhammad, Zujaj and Gohar (2021) who indicate a significantly positive relationship between the remuneration committee and profitability. It is concluded therefore that remuneration committee is a major determinant of profitability among firms quoted in Nigeria. While, Odubuasi, Ofor and Ugbah (2022) found out the effect of risk committee effectiveness (RCE) is highly significant with performance. According to Lamidi, Adebayo, Olorede, and Oyekanmi's (2022) research, the size and independence of risk management committees have a negative impact on the financial performance of Nigerian deposit money banks. Kemboi, Naibei, Sirmah, and Cheruiyot (2019) discovered a significant positive relationship between the existence of a risk committee and financial performance. As a result of this research, it was concluded that the corporate governance committee has a significant impact on the financial performance of healthcare companies in Nigeria. On this note, the study recommended that the remuneration committee ensure that the appointed board members have an appropriate balance of skills, age, gender, educational

qualifications, experience, independence, and knowledge of the company in order to successfully discharge their duties.

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